WORKERS' COMPENSATION ADVISORY COUNCIL

MINUTES ~ ~ SEPTEMBER 13, 2001 MEETING [1:00 P.M.]
710 JAMES ROBERTSON PARKWAY
HEARING ROOM, FIRST FLOOR
ANDREW JOHNSON TOWER
NASHVILLE, TENNESSEE

The meeting was called to order by Mr. Steve Adams, State Treasurer

Voting members in attendance:
- Mr. Jack Gatlin [by proxy to Mr. Neeley]
- Mr. Dave Goetz
- Mr. James G. Neeley
- Mr. Bob Pitts
- Mr. Othal Smith, Jr. [by proxy to Mr. Neeley]
- Mr. Steve Turner

Nonvoting members in attendance:
- Ms. Kitty Boyte
- Ms. Abbie Hudgens
- Mr. Jerry Mayo

Ex officio members in attendance:
- Senator Joe Haynes
- Mr. Everett Sinor, Assistant Commissioner, Department of Commerce & Insurance, [designee for Ms. Anne Pope, Commissioner]

Also present:
- M. Linda Hughes, Executive Director
- Mr. Dale Sims
- Mr. Dave Wilstermann, Research Analyst

Mr. Adams called the meeting to order. He welcomed Ms. Kitty Boyte, Governor Sundquist's appointment to the Advisory Council as a representative of the Tennessee Defense Lawyers Association.

On August 15, 2001, the National Council on Compensation Insurance, Inc. (hereinafter NCCI) submitted to the Commissioner of Commerce and Insurance advisory prospective loss costs and rating values for the Tennessee voluntary market to be effective on March 1, 2002. Commissioner Pope forwarded the filing to the Advisory Council for review and comment pursuant to statute. At this meeting, the Advisory Council heard presentations concerning the filing from the NCCI, the consulting actuary to the Advisory Council and the consulting actuary to the Department of Commerce and Insurance. The presentations are summarized below.

A. PRESENTATION OF NATIONAL COUNCIL ON COMPENSATION INSURANCE, INC. - Tony DiDonato, FCAS, MAAA, Actuarial and Economic Services

Because of the events of September 11, 2001, and the resulting grounding of all air flights, the individuals representing the NCCI were unable to attend the meeting in person. The following NCCI representatives attended the meeting by way of telephone conference call: Mr. Tony DiDonato; Ms. Cathy Booth; and Mr. Calvin Wolcott. Mr. Adams requested Mr. DiDonato begin the meeting with an explanation of the components of the filing. [Copies of the overheads which Mr. DiDonato had planned to use were provided to the members.]

Mr. DiDonato explained the components of the filing as follows:

Experience, Trend and Benefits	+1.9% change
Change in Loss Adjustment Expenses	-1.4%
Overall Change Requested	**+0.5%**

He pointed out the change in loss costs varies depending on the classification in each of the five industry groups, with no classification receiving more than + or - 25% of the average industry group change.

Mr. DiDonato first explained how trend affected the NCCI's filing. He stated actuaries use trend to forecast any changes in losses and benefits relative to payroll. The NCCI used the most recent experience available, although it is historical data, to forecast the changes which may be seen for the period to which this filing will be applicable. In determining this information the NCCI looked at Tennessee data concerning the number of claims (frequency), indemnity costs per case; and medical costs per case. The NCCI looked at eight years of experience data to look at trend. NCCI's filing is based on an assumption the claim frequency will level off (i.e. no change from the number of claims in the last two years - 1998 and 1999). NCCI also assumed the average indemnity costs will increase at 0.5% per year, which equals the eight year average. For medical costs, NCCI assumed the average medical costs will increase at +3.0% per year, which is also the eight year average.

He then explained the basis for the NCCI's recommendation of a decrease in the loss adjustment expenses (LAE). The filing is based on countrywide results. For the last three years the

LAE for both calendar year and accident year were as follows [actuaries agree accident year data is superior to calendar year data):

	Calendar Year	Accident Year
1997	18.4%	18.2%
1998	19.5%	16.8%
1999	18.2%	16.2%

The current Tennessee LAE rate is 18.1% and for 2002, NCCI is proposing a 16.5% LAE provision, which is the average accident year countrywide LAE for the past two years. Mr. DiDonato also discussed allocated loss adjustment expense (ALAE), which is approximately one half of the LAE. Only ALAE is available on a state-specific basis. When NCCI looked at Tennessee ALAE conflicting information was revealed inasmuch as calendar year indicated a slightly lower ALAE provision than 16.5% yet the accident year and policy year ALAE indicate ALAE may be rising. Therefore, NCCI elected to utilize the countrywide data in the filing. Mr. DiDonato explained the proposed LAE of 16.2% is composed of 7.4% for unallocated loss adjustment expense and 9.1% for the allocated loss adjustment expense.

Mr. Pitts requested NCCI provide the following information before the October meeting of the Advisory Council: (1) information concerning the growth pattern of frequency during the last national economic downtum; (2) information on indemnity and medical costs per claim for the past four years instead of the last eight years; (3) information concerning factors causing the reduction of LAE. Mr. Adams questioned the NCCI's projection regarding medical costs growth as most other sources are predicting medical costs to increase at a greater rate than +3%. Mr. DiDonato stated the NCCI reviewed CPI data which revealed in the last two to three years medical costs were increasing at +4.5% per year. He noted the NCCI's projected growth factor of +3.5% is the net trend, an estimate of the medical trend in excess of the wage trend.

Mr. Mayo expressed concern the filing does not take into account the fact that the economy is in a downturn which always results in increasing claim frequency. In his opinion, if frequency does increase, then the LAE may be too low.

In response to a question from Mr. Ed Costner, Mr. DiDonato stated data from nine carriers was insufficient to be used in the rate filing and therefore was excluded. Five carriers did not report any data and three carriers reported data which NCCI judged to be inaccurate so it was excluded. The excluded data totaled 9.5% of the claims data base.

B. PRESENTATION OF WILLIS CORROON [Willis Risk Solutions] - Gregory N. Alff, FCAS, MAAA, Senior Actuary

Mr. Greg Alff, the consulting actuary to the Advisory Council, was recognized to present his opinions and recommendations concerning the NCCI filing. Mr. Alff had previously provided his comments in a written report to the members of the Advisory Council.

Mr. Alff stated he reviewed the entire NCCI filing and concentrated on the quality of data and the selections of loss development, trend and loss adjustment expense factors. Mr. Alff discussed the fact that data was excluded by the NCCI from the filing due to unresolved problems in premiums reported, data reporting problems, illogical premium to loss relationships or complete failure to file data with the NCCI. While noting good reasons existed to exclude the data, he expressed concern that experience for approximately 9.8% of the 1999 written premium and 7.0% of the 1998 written premium is not included in the filing analysis.

Mr. Alff then discussed trend. He obtained countrywide trends from NCCI which were not offset by wages. Mr. Alff provided a graphic which illustrated the growth trends for both indemnity and medical costs which revealed the following growth.

	5 year	**4 year**	**3 year**
Indemnity	1.046	1.055	1.060
Medical	1.066	1.071	1.066
Frequency	.959	.960	.964

He noted the NCCI filing places the medical trend at +3.0% which they obtained by offsetting the three year medical trend of +6.6% by the +3.0% wage growth.

Mr. Alff stated the indemnity trend concerned him. The NCCI's filing includes 0.5% for net indemnity trend (net is calculated by taking the inflation on indemnity costs and dividing by inflation on wages). He explained an offset for wages of 3% to 3.5% against the indemnity (severity) trend would imply the indemnity/severity trend was 4.0%, which is what the average of 8 years of indemnity trend would be. Mr. Alff noted, however, that the trend would be 4.6% using 5years; 5.5% using 4 years and 6.0% using 3 years (which he did not recommend). Mr. Alff stated in his opinion the indemnity trend is advancing a little faster than what the NCCI has its filing.

Mr. Alff then discussed two areas of concern where the effects of potential revisions to the filing might be appropriate. The first involved the development to ultimate of medical losses. Mr. Alff explained the large increase in the development of medical losses was due to large changes in the reserves for two claims which were over 20 years old. He stated he felt this was unusual and suggested the calculation of the development factors for any one company be limited to +1.00% which would result in his selection of a "19th to ultimate" factor of +1.027 and factors from "1st to ultimate" and "2nd to ultimate" in the filing would be +1.318 and +1.214. He stated while these were still very large, they are apparently justified increases from previous filings. He remarked if the filing utilized his methodology of calculating the medical development factors, the filing indication would be -0.2%. He stated he did not recommend this change be adopted without the Council considering other suggestions related to the filing. He explained he wanted to point out the medical development factor in this filing based on the change in the medical reserves for such an old claim influenced the filing by +0.7%.

Mr. Mayo remarked the claim does exist and questioned how it could be ignored. Mr. DiDonato stated in his experience it is not unusual to see significant reserve changes in a three year period for older claims.

Mr. Alff then discussed the loss adjustment expense issue. He agreed with the selection of 9.1% for the allocated loss adjustment expense, based on countrywide data. Mr. Alff stated he was not comfortable with reducing the unallocated loss adjustment expense ratio from 9.0% to 7.4% based on countrywide data. He based this opinion on a belief that the country is in an economic downturn and workers' compensation claims frequency is likely to rise when there are significant layoffs and increasing unemployment and when claim frequency rises, so will unallocated expenses. He suggested the Advisory Council seriously consider not taking the full reduction to 7.4% in the unallocated loss adjustment expense factor as the NCCI recommends in the filing.

Mr. Alff then presented the following options for the Advisory Council's consideration, based on the different factors he discussed:

Loss Development/Loss Adjustment Expense	Loss Cost Result
1. Accept NCCI Proposed Loss Development and NCCI Proposed LAE Provision of 16.5%	+0.5%
2. Accept NCCI Proposed Loss Development and change LAE Provision to 17.0%	+1.0%
3. Accept NCCI Proposed Loss Development and change LAE Provision to 17.5%	+1.4%
4. Reduce Medical Loss Development Factors (based on revised tail) and accept NCCI Proposed LAE of 16.5% (Not recommended by Alff)	-0.2%
5. Reduce Medical Loss Development Factors (based on revised tail) and change LAE Provision to 17.0%	+0.3%
6. Reduce Medical Loss Development Factors (based on revised tail) and change LAE Provision to 17.5%	+0.7%

In his opinion any selection between +0.3% to +1.4% would be appropriate for Tennessee at this time.

C. PRESENTATION OF DEPARTMENT OF COMMERCE AND INSURANCE CONSULTANT - Casualty Actuarial Consultants, Inc., J. Edward Costner, ACAS, MAAA

Mr. Ed Costner was recognized to present his analysis and opinions regarding the loss costs filing. Mr. Costner explained he disagreed with the both the NCCI and Mr. Alff regarding the recommended loss costs. The basis of his disagreement was a review of the prior filings and the expected loss development contained in former filings when compared to the data in the current filing. He explained that the present filing indicates much higher loss development than originally expected in the prior filings. Mr. Costner stated in determining the loss development he would look at the information for years 1997 and 1998 and he would discount the 1999 data as it has yet to develop sufficiently to give an accurate trend. Mr. Costner stated had it been known last year what we now know about 1998 there would have been a loss costs filing and an increase of +4.0% last year.

Mr. Costner indicated the NCCI analysis utilizes the accepted industry standard of review of this data while in his analysis he looked at the data in a different way. He stated if 1999 data were discounted, the indication for this filing, based on the higher than expected loss development in prior years, should be a range of +5 to +10% increase in the loss costs to be effective March 1, 2002.

Mr. Costner pointed out the industry combined loss ratio is 140% and he questioned the level of adequacy of the reporting of data from the carriers. He stated, in his opinion, the only way to correct the situation is to be anticipatory - if the losses are developing upward at a rate higher than originally expected it would be best to take the actual loss development from the prior three years and average.

Mr. DiDonato responded to Mr. Costner's comments and agreed the losses from older years have developed upward more than the NCCI had expected them to do. He noted, however, that as those losses have developed upward, that higher development is now included in the development factors in the current filing and this is one reason the medical trend is so high in the current filing. Mr. Alff commented that he and the NCCI needed to review Mr. Costner's calculations and provide comment on them after that review.

Mr. Pitts stated the insurance industry would be healthier if each company chose a correct multiplier and utilized discounting responsibly. He noted perhaps the Advisory Council's objective should be the recommendation of a loss costs that is reflective of the insurance market and leave it to the individual insurance companies to provide a financially secure industry to serve employers and employees though the use of their loss cost multipliers and discounting.

Mr. Adams requested both Mr. Alff and the NCCI to review Mr. Costner's assessment of the filing and provide the Advisory Council with their opinions, including general comments concerning the proper methodology for establishing the loss costs. He asked that their comments be sent to the Advisory Council approximately one week before the scheduled meeting on October 16, 2001.

Ms. Hughes, at the request of Mr. Sims, explained to the Advisory Council the alternatives available to Commissioner Pope regarding the filing relative to the Advisory Council's final recommendation regarding the filing.

C. ADDITIONAL ISSUES/COMMENTS OF MEMBERS

Mr. Mayo reported he had been contacted by several insurance companies concerning the implementation of Senate Bill 1188 as it relates to the loss cost filing multiplier which is required to be filed annually with the Department of Commerce and Insurance. He requested a study group be appointed to meet with representatives of the Department to discuss the issue. Mr. Mayo, Ms. Hudgens and Mr. Pitts were appointed to that group and requested by Mr. Adams to report their discussions to the Advisory Council.

The meeting was adjourned by the Chair; the next meeting was scheduled for Tuesday, October 16, 2001 at 1:00 p.m.